

ANNUAL FINANCIAL REPORT

of the

**CITY OF
HILSHIRE VILLAGE, TEXAS**

**For the Year Ended
September 30, 2022**

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CITY OF HILSHIRE VILLAGE, TEXAS

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Hilshire Village, Texas:

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the City of Hilshire Village, Texas (the "City"), as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the City as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

ADDITIONAL TEXAS GOVERNMENTS WITH EXCELLENCE

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and schedule of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 28, 2023

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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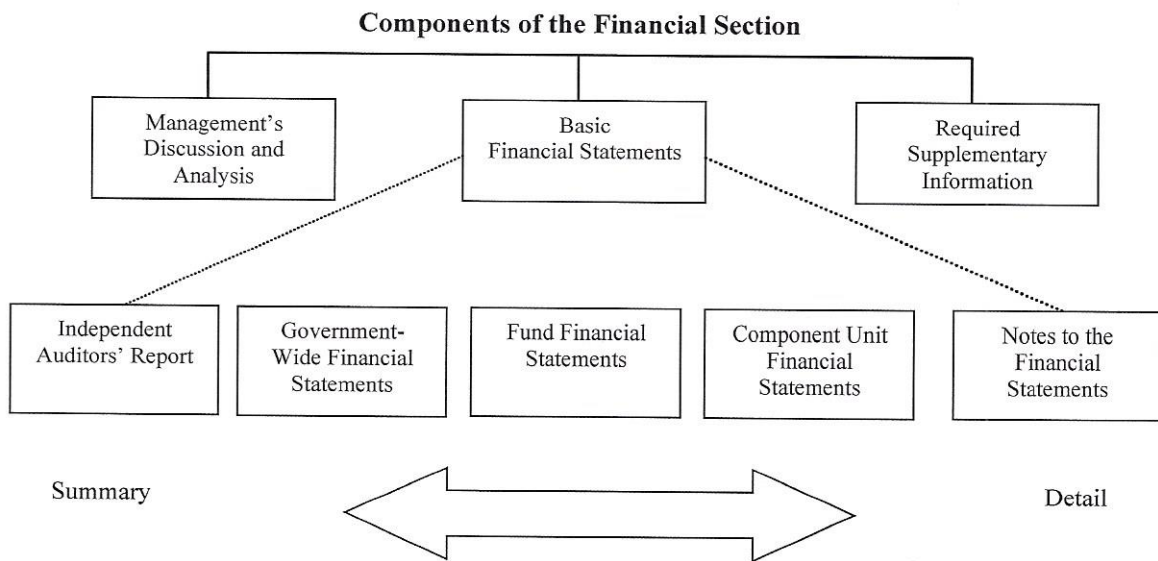
CITY OF HILSHIRE VILLAGE, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended September 30, 2022

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Hilshire Village, Texas (the "City") for the year ending September 30, 2022. The analysis is based on currently known facts, decisions, or economic conditions. It presents short- and long-term analyses of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered to assess the overall health of the City.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than the modified accrual method that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including public safety (police and fire), public works (sanitation and street maintenance), and general government. Interest payments, sales taxes, property taxes, franchise fees, intergovernmental revenue, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water distribution and wastewater collection.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate cultural education facilities finance corporation and higher education finance corporation for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, the debt service fund, and the METRO fund, which are considered to be major funds for reporting purposes.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

The City adopts an annual appropriated budget for the general fund, the debt service fund, and the METRO fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with the budgets.

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its water and wastewater operations. The proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes budgetary comparison schedules for the general fund and the METRO fund and schedules of changes in net pension and total other postemployment benefits liability and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows by \$10,609,736 as of September 30, 2022 for the primary government. This compares to the prior year's balance of \$10,375,410. The largest portion of the City's net position (76 percent) reflects its investments in capital assets (e.g., land, City hall, and streets), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

| | 2022 | | | 2021 | | |
|---|-------------------------|--------------------------|--------------------------|-------------------------|--------------------------|--------------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| Current and other assets | \$ 2,188,790 | \$ 589,699 | \$ 2,778,489 | \$ 1,908,612 | \$ 542,501 | \$ 2,451,113 |
| Noncurrent assets | 6,580,859 | 2,446,715 | 9,027,574 | 6,838,596 | 2,547,256 | 9,385,852 |
| Total Assets | 8,769,649 | 3,036,414 | 11,806,063 | 8,747,208 | 3,089,757 | 11,836,965 |
| Deferred outflows - pensions | 12,405 | - | 12,405 | 12,355 | - | 12,355 |
| Deferred outflows - OPEB | 1,402 | - | 1,402 | 1,641 | - | 1,641 |
| Total Deferred Outflows of Resources | 13,807 | - | 13,807 | 13,996 | - | 13,996 |
| Long-term liabilities | 909,795 | - | 909,795 | 1,241,858 | - | 1,241,858 |
| Other liabilities | 5,884 | 283,634 | 289,518 | 26,519 | 203,092 | 229,611 |
| Total Liabilities | 915,679 | 283,634 | 1,199,313 | 1,268,377 | 203,092 | 1,471,469 |
| Deferred inflows - pensions | 10,367 | - | 10,367 | 3,766 | - | 3,766 |
| Deferred inflows - OPEB | 454 | - | 454 | 316 | - | 316 |
| Total Deferred Inflows of Resources | 10,821 | - | 10,821 | 4,082 | - | 4,082 |
| Net position: | | | | | | |
| Net investment in capital assets | 5,669,582 | 2,446,715 | 8,116,297 | 5,608,596 | 2,547,256 | 8,155,852 |
| Restricted | 421,346 | - | 421,346 | 345,383 | - | 345,383 |
| Unrestricted | 1,766,028 | 306,065 | 2,072,093 | 1,534,766 | 339,409 | 1,874,175 |
| Total Net Position | \$ 7,856,956 | \$ 2,752,780 | \$ 10,609,736 | \$ 7,488,745 | \$ 2,886,665 | \$ 10,375,410 |

A portion of the City's net position, \$421,346 or 4 percent, represents resources that are subject to external restriction on how they may be used.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

Statement of Activities

The following table provides a summary of the City's changes in net position:

| | For the Year Ended September 30, 2022 | | | For the Year Ended September 30, 2021 | | |
|-------------------------------|---------------------------------------|--------------------------|--------------------------|---------------------------------------|--------------------------|--------------------------|
| | Governmental Activities | Business-Type Activities | Total Primary Government | Governmental Activities | Business-Type Activities | Total Primary Government |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 239,004 | \$ 532,648 | \$ 771,652 | \$ 189,654 | \$ 486,309 | \$ 675,963 |
| Operating grants | 103,198 | - | 103,198 | 133,689 | - | 133,689 |
| General revenues: | | | | | | |
| Property taxes | 1,581,583 | - | 1,581,583 | 1,519,252 | - | 1,519,252 |
| Sales taxes | 67,116 | - | 67,116 | 66,830 | - | 66,830 |
| Franchise fees | 60,490 | - | 60,490 | 56,391 | - | 56,391 |
| Investment income | 1,893 | 3,466 | 5,359 | 2,560 | 2,193 | 4,753 |
| Total Revenues | <u>2,053,284</u> | <u>536,114</u> | <u>2,589,398</u> | <u>1,968,376</u> | <u>488,502</u> | <u>2,456,878</u> |
| Expenses | | | | | | |
| General government | 414,461 | - | 414,461 | 363,845 | - | 363,845 |
| Police protection | 568,642 | - | 568,642 | 522,030 | - | 522,030 |
| Fire protection | 230,950 | - | 230,950 | 215,490 | - | 215,490 |
| Public works | 443,167 | - | 443,167 | 442,846 | - | 442,846 |
| Long-term debt interest | 27,853 | - | 27,853 | 39,380 | - | 39,380 |
| Water and sewer | - | 669,999 | 669,999 | - | 580,461 | 580,461 |
| Total Expenses | <u>1,685,073</u> | <u>669,999</u> | <u>2,355,072</u> | <u>1,583,591</u> | <u>580,461</u> | <u>2,164,052</u> |
| Change in Net Position | 368,211 | (133,885) | 234,326 | 384,785 | (91,959) | 292,826 |
| Beginning net position | <u>7,488,745</u> | <u>2,886,665</u> | <u>10,375,410</u> | <u>7,103,960</u> | <u>2,978,624</u> | <u>10,082,584</u> |
| Ending Net Position | <u>\$ 7,856,956</u> | <u>\$ 2,752,780</u> | <u>\$ 10,609,736</u> | <u>\$ 7,488,745</u> | <u>\$ 2,886,665</u> | <u>\$ 10,375,410</u> |

Overall governmental activity revenues increased by \$84,908, or 4 percent, over the prior year, primarily due to the increase in property taxes and charges for services. Governmental expenses increased by \$101,482, or 6 percent, compared to the prior year mainly due to increases in expenditures related to general government, police protection, and fire protection.

Revenues from business-type activities totaled \$536,114, which is an increase of \$47,612 from the prior year. Business-type activities expenses increased by \$89,538, which is an increase of 15 percent from the prior year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

The City's general fund reflects a fund balance of \$1,737,500, of which \$8,696 is restricted for child safety and \$1,728,804 is unassigned. There was an increase in the fund balance for the general fund of \$234,517 from the prior year. The increase in fund balance is primarily due to an increase in property tax revenue. Unassigned fund balance for the general fund is approximately 15 months of operating expenditures based on the 2022 fiscal year expenditures.

The City's debt service fund reflects a fund balance of \$1,224. There was a decrease in the fund balance of \$18,816 from the prior year, due to an increase in debt service principal expenditures. The fund balance is restricted for debt service payments.

The City's METRO fund reflects a fund balance of \$411,426, which is restricted for METRO-related street maintenance and improvement. The METRO fund reported an increase in fund balance of \$93,861 from the prior year. The increase in fund balance is due to excess revenues over expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

For the year, the general fund's actual revenues exceeded budgeted revenues by \$93,029. This net variance includes a positive variances of \$31,619 in licenses and permits, \$27,397 in charges for services and \$14,474 in property taxes. General fund expenditures were less than the final budget by \$267,643. This was primarily due to a positive variance of \$87,914 in general government expenditures and \$153,000 in expenditures related to street (METRO) projects.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$9,016,297, net of depreciation, in a variety of capital assets and infrastructure. This represents a net decrease of \$358,278 due to depreciation exceeding capital asset additions.

More detailed information on the City's capital assets is presented in Note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the year, the City's long-term debt consisted of certificates of obligation and a tax maintenance note with an outstanding balance of \$900,000.

More detailed information about the City's long-term liabilities is presented in Note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The primary function of government is to provide for the health, safety, and wellbeing of the community. All of the duties of the City administration are guided by these three responsibilities. Other activities are imposed on the administration by requests of citizens, state government, and others. This work consists of maintaining infrastructure (streets, drainage, water, sewer) and other more routine functions such as construction permits and inspections; citizen requests and complaints; utility metering and billing; City Council meetings; preparing, recording and codifying ordinances; legal matters; and budget preparation and management. The following

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

sections provide further detail on the governmental, business-type, and capital improvement activities for the City.

Governmental Activities

To ensure that fire protection, law enforcement, and trash removal services are sustained, the City must make sure that they are adequately funded. The City continues to charge a trash collection fee to recover all associated costs of trash removal. Essential services from the Fire and Police departments, the City's largest expenditures, continue to be funded by ad valorem and sales tax revenue. Both Fire and Police budgets have substantially increased over the last couple of years.

The general fund, used for its governmental activities continues to be at a healthy level. This is attributable to careful budgeting and diligent fiscal management. The City Council approved the 2022 tax rate to fund the operating budget for fiscal year 2023. The City was able to decrease the total tax rate by \$0.012296, funding both the maintenance and operation fund and the payment of the City's tax anticipation notes. The rate decrease was due to home appraisal evaluation increasing for the year and the City controlling its expenses.

The City was able to paint city hall interior and replace the carpet in fiscal year 2022; however, the lighting upgrade project will not be completed until fiscal year 2023.

The Village Fire Department facility remodeling project has taken longer than anticipated and is now projected to be completed sometime in May 2023. The City does not anticipate that the Fire Department will need any additional funding to finish the remodel project; however, if funding is required to complete the project, the City will use a portion of its fiscal year 2023 operating budget reserve.

The City collects minimal funds from sales tax revenue. The City was back charged \$21,597 for sales tax funds received for a business not in the City's jurisdiction. The City entered into a 47-month payback agreement with the State Comptroller starting in January of 2023.

Business-Type Activities

An existing policy is in effect to review the City of Houston's water rates annually and to adjust the City's water rates accordingly. The City subsequently increased the water rate by \$0.25 per 1,000 gallons in fiscal year 2022 to continue maintaining its reserve for water system maintenance while minimizing the impact on residents.

In the fiscal year 2023 budget adoption process, the City again studied the proposed water rate increase by the City of Houston and therefore increased the water rates by \$0.25 per 1,000 gallons. Future rate increases may need to exceed the standard \$0.25 per 1,000 gallons to cover rising costs.

Capital Infrastructure Improvements

The City did not budget any new paving, drainage, water or sanitary sewer rehabilitation projects for the 2021 through 2023 fiscal budget time frame. The City will be planning the next infrastructure project in the end of fiscal year 2023.

The City's intent is to continually maintain and replace the City's infrastructure to avoid costly emergency repairs in the future.

The City went out for quotes and issued a purchase order to install a generator for the lift station. Due to long lead times the generator should be installed at the end of December 2022.

CITY OF HILSHIRE VILLAGE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2022

Grants

The City Administrator continues to seek grants to help fund projects to benefit the City. A grant of \$200,409 was awarded from the American Rescue Plan to be used on utility infrastructure. This will be used to engineer the next infrastructure project in fiscal year 2024.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Secretary, City Hall, 8301 Westview, Houston, TX, 77055, telephone (713) 973-1779. You may also visit the City's website at www.hilshirevillagetexas.com for additional information.

BASIC FINANCIAL STATEMENTS

CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF NET POSITION

September 30, 2022

| | Primary Government | | |
|--|----------------------------|-----------------------------|---------------|
| | Governmental Activities | Business-Type Activities | Total |
| <u>Assets</u> | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 2,218,627 | \$ 385,375 | \$ 2,604,002 |
| Receivables, net | 55,397 | 118,990 | 174,387 |
| Prepaid expenses | 100 | - | 100 |
| Internal balances | (85,334) | 85,334 | - |
| Total current assets | 2,188,790 | 589,699 | 2,778,489 |
| Noncurrent assets: | | | |
| Net pension asset | 11,277 | - | 11,277 |
| Nondepreciable capital assets | 115,896 | - | 115,896 |
| Net depreciable capital assets | 6,453,686 | 2,446,715 | 8,900,401 |
| Total noncurrent assets | 6,580,859 | 2,446,715 | 9,027,574 |
| Total Assets | 8,769,649 | 3,036,414 | 11,806,063 |
| <u>Deferred Outflows of Resources</u> | | | |
| Deferred outflows - pensions | 12,405 | - | 12,405 |
| Deferred outflows - OPEB | 1,402 | - | 1,402 |
| Total Deferred Outflows of Resources | 13,807 | - | 13,807 |
| <u>Liabilities</u> | | | |
| Current liabilities: | | | |
| Accounts payable and accrued liabilities | 5,884 | - | 5,884 |
| Customer deposits | - | 83,225 | 83,225 |
| Unearned revenue | - | 200,409 | 200,409 |
| Total current liabilities | 5,884 | 283,634 | 289,518 |
| Noncurrent liabilities: | | | |
| Due within one year | 340,000 | - | 340,000 |
| Due in more than one year | 569,795 | - | 569,795 |
| Total noncurrent liabilities | 909,795 | - | 909,795 |
| Total Liabilities | 915,679 | 283,634 | 1,199,313 |
| <u>Deferred Inflows of Resources</u> | | | |
| Deferred inflows - pensions | 10,367 | - | 10,367 |
| Deferred inflows - OPEB | 454 | - | 454 |
| Total Deferred Inflows of Resources | 10,821 | - | 10,821 |
| <u>Net Position</u> | | | |
| Net investment in capital assets | 5,669,582 | 2,446,715 | 8,116,297 |
| Restricted | 421,346 | - | 421,346 |
| Unrestricted | 1,766,028 | 306,065 | 2,072,093 |
| Total Net Position | \$ 7,856,956 | \$ 2,752,780 | \$ 10,609,736 |

See Notes to Financial Statements.

CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

| Functions/Programs | Expenses | Program Revenues | |
|---|---------------------|-------------------------|--|
| | | Charges for Services | Operating Grants and Contributions |
| Primary Government | | | |
| Governmental Activities | | | |
| General government | \$ 414,461 | \$ 20,918 | \$ - |
| Police protection | 568,642 | 12,439 | - |
| Fire protection | 230,950 | - | - |
| Public works | 443,167 | 205,647 | 103,198 |
| Long-term debt interest and fiscal agent fees | 27,853 | - | - |
| Total Governmental Activities | 1,685,073 | 239,004 | 103,198 |
| Business-Type Activities | | | |
| Water and sewer | 669,999 | 532,648 | - |
| Total Business-Type Activities | 669,999 | 532,648 | - |
| Total Primary Government | \$ 2,355,072 | \$ 771,652 | \$ 103,198 |
| Component Units | | | |
| Hilshire Village Cultural Education Facilities Finance Corporation | \$ 20,035 | \$ 20,000 | \$ - |
| Hilshire Village Higher Education Finance Corporation | 35 | - | - |
| Total Component Units | \$ 20,070 | \$ 20,000 | \$ - |

General Revenues:

Taxes:

Property taxes

Sales taxes

Franchise fees

Investment income

Total General Revenues

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

| Primary Government | | | Component Units | |
|-------------------------|--------------------------|----------------------|-----------------|---------------|
| Governmental Activities | Business-Type Activities | Total | HVCEFFC | HVHEFC |
| \$ (393,543) | \$ - | \$ (393,543) | \$ - | \$ - |
| (556,203) | - | (556,203) | - | - |
| (230,950) | - | (230,950) | - | - |
| (134,322) | - | (134,322) | - | - |
| (27,853) | - | (27,853) | - | - |
| <u>(1,342,871)</u> | <u>-</u> | <u>(1,342,871)</u> | <u>-</u> | <u>-</u> |
| - | (137,351) | (137,351) | - | - |
| - | (137,351) | (137,351) | - | - |
| <u>(1,342,871)</u> | <u>(137,351)</u> | <u>(1,480,222)</u> | <u>-</u> | <u>-</u> |
| - | - | - | (35) | - |
| - | - | - | - | (35) |
| - | - | - | <u>(35)</u> | <u>(35)</u> |
| 1,581,583 | - | 1,581,583 | - | - |
| 67,116 | - | 67,116 | - | - |
| 60,490 | - | 60,490 | - | - |
| 1,893 | 3,466 | 5,359 | - | - |
| <u>1,711,082</u> | <u>3,466</u> | <u>1,714,548</u> | <u>-</u> | <u>-</u> |
| 368,211 | (133,885) | 234,326 | (35) | (35) |
| 7,488,745 | 2,886,665 | 10,375,410 | 576 | 965 |
| <u>\$ 7,856,956</u> | <u>\$ 2,752,780</u> | <u>\$ 10,609,736</u> | <u>\$ 541</u> | <u>\$ 930</u> |

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CITY OF HILSHIRE VILLAGE, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS September 30, 2022

| | General | Debt Service | METRO | Total Governmental Funds |
|--|---------------------|-----------------|-------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 1,807,201 | \$ - | \$ 411,426 | \$ 2,218,627 |
| Receivables | 45,936 | 9,461 | - | 55,397 |
| Prepaid expenses | 100 | - | - | 100 |
| Due from other funds | 176 | - | - | 176 |
| Total Assets | \$ 1,853,413 | \$ 9,461 | \$ 411,426 | \$ 2,274,300 |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 3,581 | \$ - | \$ - | \$ 3,581 |
| Due to other funds | 85,334 | 176 | - | 85,510 |
| Total Liabilities | 88,915 | 176 | - | 89,091 |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue - property taxes | 26,998 | 8,061 | - | 35,059 |
| Fund Balances | | | | |
| Restricted for METRO | - | - | 411,426 | 411,426 |
| Restricted for debt service | - | 1,224 | - | 1,224 |
| Restricted for child safety | 8,696 | - | - | 8,696 |
| Unassigned | 1,728,804 | - | - | 1,728,804 |
| Total Fund Balances | 1,737,500 | 1,224 | 411,426 | 2,150,150 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 1,853,413 | \$ 9,461 | \$ 411,426 | |
| Adjustments for the Statement of Net Position: | | | | |
| Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. | | | | |
| Nondepreciable capital assets | | | | 115,896 |
| Depreciable capital assets | | | | 10,369,799 |
| Accumulated depreciation | | | | (3,916,113) |
| Long-term liabilities and deferred outflows and deferred inflows related to the net pension asset and total OPEB liability are not reported in the governmental funds. | | | | |
| Net pension asset | | | | 11,277 |
| Total OPEB liability | | | | (9,795) |
| Deferred outflows - pensions | | | | 12,405 |
| Deferred inflows - pensions | | | | (10,367) |
| Deferred outflows - OPEB | | | | 1,402 |
| Deferred inflows - OPEB | | | | (454) |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds. | | | | |
| Deferred revenue | | | | 35,059 |
| Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds. | | | | |
| Accrued interest payable | | | | (2,303) |
| Noncurrent liabilities due within one year | | | | (340,000) |
| Noncurrent liabilities due in more than one year | | | | (560,000) |
| Net Position of Governmental Activities | | | | \$ 7,856,956 |

See Notes to Financial Statements.

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CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2022

| | General | Debt Service | METRO | Total Governmental Funds |
|--|---------------------|-----------------|-------------------|--------------------------------|
| Revenues | | | | |
| Property taxes | \$ 1,228,053 | \$ 362,601 | \$ - | \$ 1,590,654 |
| Sales taxes | 67,116 | - | - | 67,116 |
| Franchise fees | 60,490 | - | - | 60,490 |
| Licenses and permits | 121,419 | - | - | 121,419 |
| Investment income | 1,375 | - | 518 | 1,893 |
| Intergovernmental revenue | 198 | - | 103,000 | 103,198 |
| Charges for services | 117,585 | - | - | 117,585 |
| Total Revenues | <u>1,596,236</u> | <u>362,601</u> | <u>103,518</u> | <u>2,062,355</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 412,415 | - | - | 412,415 |
| Police protection | 568,642 | - | - | 568,642 |
| Fire protection | 230,950 | - | - | 230,950 |
| Public works | 172,954 | - | 9,657 | 182,611 |
| Debt Service: | | | | |
| Principal | - | 330,000 | - | 330,000 |
| Interest | - | 28,175 | - | 28,175 |
| Total Expenditures | <u>1,384,961</u> | <u>358,175</u> | <u>9,657</u> | <u>1,752,793</u> |
| Excess of Revenues Over Expenditures | <u>211,275</u> | <u>4,426</u> | <u>93,861</u> | <u>309,562</u> |
| Other Financing Sources Proceeds (Uses) | | | | |
| Transfers in (out) | 23,242 | (23,242) | - | - |
| Total Other Financing Sources Proceeds (Uses) | <u>23,242</u> | <u>(23,242)</u> | <u>-</u> | <u>-</u> |
| Net Change in Fund Balances | 234,517 | (18,816) | 93,861 | 309,562 |
| Beginning fund balances | 1,502,983 | 20,040 | 317,565 | 1,840,588 |
| Ending Fund Balances | <u>\$ 1,737,500</u> | <u>\$ 1,224</u> | <u>\$ 411,426</u> | <u>\$ 2,150,150</u> |

See Notes to Financial Statements.

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CITY OF HILSHIRE VILLAGE, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2022

Net change in fund balances - governmental funds \$ 309,562

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense (269,014)

Revenues that do not provide current financial resources are not reported as revenues in the funds.

(9,071)

Net pension and total other postemployment benefits (OPEB) liability and related deferred outflows/inflows are reported in the governmental funds.

| | |
|-------------------------------|---------|
| Net pension liability/(asset) | 13,842 |
| Total OPEB liability | (502) |
| Deferred outflows - pensions | 50 |
| Deferred inflows - pensions | (6,601) |
| Deferred outflows - OPEB | (239) |
| Deferred inflows - OPEB | (138) |

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effects of issuance costs, premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. In addition, pension and other post employment benefits (OPEB) expenses and the amortization of deferred items are accounted for in the Statement of Activities.

| | |
|--|--------------------------|
| Principal payment | 330,000 |
| Accrued interest | 322 |
| Change in Net Position of Governmental Activities | <u><u>\$ 368,211</u></u> |

See Notes to Financial Statements.

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CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2022

| | <u>Business-Type Activities Enterprise</u> |
|--|--|
| Assets: | |
| Cash and cash equivalents | \$ 385,375 |
| Accounts receivable, net | 118,990 |
| Due from other funds | 85,334 |
| Total Current Assets | <u>589,699</u> |
| Capital assets: | |
| Water | 2,587,695 |
| Sewer | 1,727,399 |
| Less: accumulated depreciation | (1,868,379) |
| Total Capital Assets, Net of Accumulated Depreciation | <u>2,446,715</u> |
| Total Noncurrent Assets | <u>2,446,715</u> |
| Total Assets | <u>3,036,414</u> |
| Liabilities: | |
| Customer deposits | 83,225 |
| Unearned revenue | 200,409 |
| Total Current Liabilities | <u>283,634</u> |
| Total Liabilities | <u>283,634</u> |
| Net Position: | |
| Net investment in capital assets | 2,446,715 |
| Unrestricted | 306,065 |
| Total Net Position | <u>\$ 2,752,780</u> |

See Notes to Financial Statements.

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CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUND

For the Year Ended September 30, 2022

| | <u>Business-Type Activities</u> <u>Enterprise</u> |
|--|--|
| <u>Operating Revenues</u> | |
| Water and sewer charges | \$ 532,648 |
| Total Operating Revenues | <u>532,648</u> |
| <u>Operating Expenses</u> | |
| Water services | 411,247 |
| Sewer services | 113,141 |
| Administrative | 11,560 |
| Depreciation | 134,051 |
| Total Operating Expenses | <u>669,999</u> |
| Operating (Loss) | <u>(137,351)</u> |
| <u>Nonoperating Revenues (Expenses)</u> | |
| Investment income | <u>3,466</u> |
| Total Nonoperating Revenues | <u>3,466</u> |
| Change in Net Position | (133,885) |
| Beginning net position | 2,886,665 |
| Ending Net Position | <u>\$ 2,752,780</u> |

See Notes to Financial Statements.

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CITY OF HILSHIRE VILLAGE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2022

| | Business-Type Activities Enterprise |
|---|---|
| <u>Cash Flows from Operating Activities</u> | |
| Receipts from customers | \$ 557,256 |
| Payments to suppliers | (559,209) |
| Net Cash Provided by Operating Activities | (1,953) |
| <u>Cash Flows from Capital and Related Financing Activities</u> | |
| Capital grants | 100,303 |
| Capital purchases | (33,510) |
| Net Cash Provided by Capital and Related Financing Activities | 66,793 |
| <u>Cash Flows from Investing Activities</u> | |
| Interest on investments | 3,466 |
| Net Cash Provided by Investing Activities | 3,466 |
| Net Increase in Cash and Cash Equivalents | 68,306 |
| Beginning cash and cash equivalents | 317,069 |
| Ending Cash and Cash Equivalents | \$ 385,375 |
| Reconciliation of Operating Income (Loss) | |
| to Net Cash Provided (Used) by Operating Activities | |
| Operating (loss) | \$ (137,351) |
| Adjustments to reconcile operating (loss) to net cash provided by operating activities: | |
| Depreciation | 134,051 |
| Changes in Operating Assets and Liabilities: | |
| (Increase) Decrease in: | |
| Accounts receivable | (1,538) |
| Prepaid items | 7,874 |
| Due from other funds | 14,772 |
| Increase (Decrease) in: | |
| Accounts payable | (23,261) |
| Customer deposits | 3,500 |
| Net Cash Provided by Operating Activities | \$ (1,953) |

See Notes to Financial Statements.

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CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Hilshire Village, Texas (the “City”) was organized as the Town of Hilshire Village, Texas, and incorporated in 1955 as a General Law Village under Chapter 11, Title 28, Acts of the Texas Legislature, 1925 as amended (the “Act”). The incorporation papers were amended in 1973 to permit operation as a Type A General Law City under the authority of chapters one through ten of the above Act and the name changed to its present name.

The City’s primary activities include general administration, police protection, fire protection, and public works including water, sewer, and solid waste disposal services.

The City is an independent political subdivision of the State of Texas (the “State”) governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City’s financial reporting entity. The component units as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City’s reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles (GAAP) include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Discretely Presented Component Units

Hilshire Village Cultural Education Facilities Finance Corporation

The Hilshire Village Cultural Education Facilities Finance Corporation (HVCEFFC) has been included in the reporting entity as a discretely presented component unit.

The HVCEFFC was created by the City in 2006 under the Cultural Education Facilities Finance Corporation Act, Article 1528m, Vernon’s Texas Civil Statutes, for the purpose of benefiting and accomplishing public purposes on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position shall be conveyed to the City.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Hilshire Village Higher Education Finance Corporation

The Hilshire Village Higher Education Finance Corporation (HVHEFC) has been included in the reporting entity as a discretely presented component unit.

The HVHEFC was created by the City in 2015 under Section 53.35(b) of the Texas Education Code for the purpose of benefiting and accomplishing public purposes on behalf of the City. The Board of Directors is appointed by and serves at the discretion of the City Council.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the City's enterprise fund. Separate financial statements are provided for governmental and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

The City reports the following governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the payment of interest and principal on all general obligation debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue fund* is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The METRO fund is considered a major fund for reporting purposes.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

The City reports the following enterprise fund:

The *enterprise fund* is used to account for the City's water and wastewater operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The enterprise fund is considered a major fund for reporting purposes.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise fund) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Property taxes, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments, except for certain investment pools, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. government
- Repurchase agreements
- Fully collateralized certificates of deposit
- Savings and loan association deposits backed by FSLIC
- Mutual funds of a specific type
- Statewide investment pools

3. Prepaid Items

Certain payments to vendors reflect costs applicable to a future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of two years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with the construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

| <u>Asset Description</u> | <u>Estimated Useful Life</u> |
|----------------------------|------------------------------|
| Water and sewer system | 10 to 45 years |
| Buildings and improvements | 10 to 45 years |
| Furniture and equipment | 3 to 20 years |
| Vehicles | 3 to 10 years |
| Infrastructure | 20 years |

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.

At the fund level, the City only has one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

7. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

8. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

11. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

12. Other Postemployment Benefits

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

2. Property Taxes

Property taxes are levied during September of each year and are due upon receipt of the City's tax bill and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The procedure for collection on delinquent taxes is to send delinquent notices and a letter and then refer the delinquent accounts to the tax attorney for legal action. A penalty of seven percent is added to delinquent taxes on February 1 and increases two percent each month through September. An additional penalty of 15 percent is added in July for attorney costs. There are no discounts allowed on taxes.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with GAAP for the general fund, the debt service fund, and the METRO fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control is the object and purpose stated in the approved budget.

III. DETAILED NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

As of September 30, 2022, the City had the following investments:

| <u>Investment Type</u> | <u>Value</u> | <u>Weighted Average Maturity (Years)</u> |
|-------------------------------------|---------------------|--|
| TexPool | 1,358,391 | 0.07 |
| Total Value | <u>\$ 1,358,391</u> | |
| Portfolio weighted average maturity | | 0.07 |

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. The City's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. As of September 30, 2022, the City's investments in TexPool was rated 'AAAm' by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities and/or FDIC insurance. As of

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

September 30, 2022, the City's bank balances were covered by FDIC insurance and market values of pledged securities.

TexPool

TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool "AAAm". As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

B. Receivables

The following comprises receivable balances at year end:

| | <u>General</u> | <u>Debt Service</u> | <u>Enterprise</u> |
|--------------------------|------------------|---------------------|-------------------|
| Property taxes | \$ 26,998 | \$ 8,061 | \$ - |
| Other taxes | 11,343 | - | - |
| Other receivables | 7,595 | 1,400 | - |
| Accounts | - | - | 118,990 |
| Total Receivables | <u>\$ 45,936</u> | <u>\$ 9,461</u> | <u>\$ 118,990</u> |

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

C. Capital Assets

A summary of changes in capital assets at year end is as follows:

| | Beginning Balance | Increases | (Decreases) | Ending Balance |
|--|----------------------|---------------------|---|---------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 115,896 | \$ - | \$ - | \$ 115,896 |
| Total capital assets not being depreciated | 115,896 | - | - | 115,896 |
| Other capital assets: | | | | |
| Buildings and improvements | 276,379 | - | - | 276,379 |
| Infrastructure | 10,093,420 | - | - | 10,093,420 |
| Total other capital assets | 10,369,799 | - | - | 10,369,799 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (171,597) | (8,458) | | (180,055) |
| Infrastructure | (3,475,502) | (260,556) | - | (3,736,058) |
| Total accumulated depreciation | (3,647,099) | (269,014) | - | (3,916,113) |
| Other capital assets, net | 6,722,700 | (269,014) | - | 6,453,686 |
| Governmental Activities Capital Assets, Net | \$ 6,838,596 | \$ (269,014) | \$ - | 6,569,582 |
| | | | Less related debt | (900,000) |
| | | | Net Investment in Capital Assets | \$ 5,669,582 |

Depreciation was charged to governmental functions as follows:

| | |
|---|-------------------|
| General government | \$ 8,458 |
| Public works | 260,556 |
| Total Governmental Activities Depreciation Expense | \$ 269,014 |

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

The following is a summary of changes in capital assets for business-type activities for the year:

| | Beginning Balance | Increases | (Decreases) | Ending Balance |
|---|----------------------|---------------------|-------------|---------------------|
| Business-Type Activities: | | | | |
| Capital assets: | | | | |
| Water system | \$ 2,587,695 | \$ - | \$ - | \$ 2,587,695 |
| Sewer system | 1,693,889 | 33,510 | - | 1,727,399 |
| Total other capital assets | 4,281,584 | 33,510 | - | 4,315,094 |
| Less accumulated depreciation for: | | | | |
| Water system | (1,002,291) | (80,558) | - | (1,082,849) |
| Sewer system | (732,037) | (53,493) | - | (785,530) |
| Total accumulated depreciation | (1,734,328) | (134,051) | - | (1,868,379) |
| Other capital assets, net | 2,547,256 | (100,541) | - | 2,446,715 |
| Business-Type Activities Capital Assets, Net | \$ 2,547,256 | \$ (100,541) | \$ - | \$ 2,446,715 |

Depreciation was charged to business-type functions as follows:

| | |
|--|-------------------|
| Water | \$ 80,558 |
| Sewer | 53,493 |
| Total Business-Type Activities Depreciation Expense | \$ 134,051 |

D. Long-Term Debt

In general, the City uses the debt service fund to liquidate governmental long-term liabilities. The following is a summary of changes in the City's long-term liabilities for the year ended September 30, 2022:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amount Due Within One Year |
|--|----------------------|---------------|-------------------|-------------------|-------------------------------|
| Governmental Activities | | | | | |
| Bonds, notes, and other payables: | | | | | |
| Certificates of obligation, series 2014 | \$ 420,000 | \$ - | \$ 135,000 | \$ 285,000 | * \$ 140,000 |
| Tax anticipation note, series 2018 | 810,000 | - | 195,000 | 615,000 | * |
| 200,000 | | | | | |
| Other liabilities: | | | | | |
| Net pension liability | 2,565 | - | 2,565 | - | - |
| Total OPEB liability | 9,293 | 502 | - | 9,795 | - |
| Total Governmental Activities | \$ 1,241,858 | \$ 502 | \$ 332,565 | \$ 909,795 | \$ 340,000 |
| Long-term liabilities due in more than one year | | | | \$ 569,795 | |
| * Debt associated with capitals assets | | | | \$ 900,000 | |

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

CITY OF HILSHIRE VILLAGE, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2022

Long-term debt at year end was comprised of the following debt issue:

| | Amounts Outstanding | Interest Rate | Maturity Interest Pmt. Dates |
|---|------------------------|------------------|------------------------------------|
| Certificates of obligation, series 2014 | \$ 285,000 | 2.19% | Mar 1, Sep 1 |
| Tax anticipation note, series 2018 | 615,000 | 2.91% | Mar 1, Sep 1 |
| | \$ 900,000 | | |

As of September 30, 2022, the debt service requirements on the debt outstanding is as follows:

| Fiscal Year Ending Sept. 30 | Principal Due | Interest Due | Total Due |
|-----------------------------------|-------------------|------------------|-------------------|
| 2023 | 340,000 | 19,695 | 359,695 |
| 2024 | 350,000 | 10,682 | 360,682 |
| 2025 | 210,000 | 3,055 | 213,055 |
| Total | \$ 900,000 | \$ 33,432 | \$ 933,432 |

The City is not obligated in any manner for special assessment debt.

Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

E. Interfund Transactions

The composition of interfund balances was as follows:

| Payable Fund | Receivable Fund | Amount |
|-------------------|-----------------|-----------|
| Debt service fund | General Fund | \$ 176 |
| General fund | Enterprise fund | 85,334 |
| | | \$ 85,510 |

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

Transfers between the primary government funds during the year were as follows:

| Transfer In | Transfer Out | Amount |
|-------------------|--------------|-----------|
| Debt service fund | General fund | \$ 23,242 |

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

F. Fund Equity

The City entered into an interlocal street maintenance agreement with the Metropolitan Transit Authority of Harris County, Texas (METRO) in 1992 for the purpose of improving the street network throughout the METRO region of the City. Additional expanded sales tax funding was also dedicated for street maintenance and improvement. Money received from METRO is recognized as intergovernmental revenue. The City's METRO fund has a restricted fund balance of \$411,426.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plan

Texas Municipal Retirement System

Plan Description

The City participates as one of 901 plans in the defined benefit cash-balance plan administered by TMRS. TMRS is a statewide public retirement plan created by the State and administered in accordance with the Texas Government Code, Title 8, Subtitle G (the "TMRS Act") as an agent multiple-employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees (the "Board"); however, TMRS does not receive any funding from the State. TMRS issues a publicly available Annual Comprehensive Financial Report that can be obtained at tmrs.com.

All eligible employees of the City are required to participate in TMRS.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the member's benefit is calculated based on the sum of the member's contributions, with interest, and the City-financed monetary credits, with interest, and their age at retirement and other actuarial factors. The retiring member may select one of seven monthly payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member contributions and interest.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

| | 2022 | 2021 |
|--|------------|------------|
| Employee deposit rate | 5.00% | 5.00% |
| Matching ratio (City to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service requirement eligibility (expressed as age/yrs of service) | 60/5, 20/0 | 60/5, 20/0 |
| Updated service credit | 0% | 0% |
| Annuity increase (to retirees) | 0% of CPI | 0% of CPI |

Employees Covered by Benefit Terms

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

| | | |
|--|---|--|
| Inactive employees or beneficiaries currently receiving benefits | 1 | |
| Active employees | 2 | |
| Total | 3 | |

Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the member's total compensation, and the City-matching ratios are either 1:1 (1 to 1), 1.5:1 (1½ to 1), or 2:1 (2 to 1), both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal actuarial cost method. The City's contribution rate is based on the liabilities created from the benefit plan options selected by the City and any changes in benefits or actual experience over time.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.94 percent and 9.97 percent in 2021 and 2022, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2022 were \$14,342, which were equal to the required contributions.

Net Pension Liability/(Asset)

The City's Net Pension Liability/(Asset) (NPL/(A)) was measured as of December 31, 2021 and the Total Pension Liability (TPL) used to calculate the NPL/(A) was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|--|
| Inflation | 2.50% per year |
| Overall payroll growth | 2.75% per year, adjusted down for population declines, if any |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-Distinct 2019 Municipal Retirees of Texas mortality tables. The rates for active members, healthy retirees, and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees are used with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5 percent and 3.0 percent minimum mortality rate is applied for males and females, respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The postretirement mortality assumption for annuity purchase rates is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|----------------------------------|-------------------|--|
| Global public equity | 35.00% | 7.55% |
| Core fixed income | 6.00% | 2.00% |
| Non-core fixed income | 20.00% | 5.68% |
| Other public and private markets | 12.00% | 7.22% |
| Real estate | 12.00% | 6.85% |
| Hedge funds | 5.00% | 5.35% |
| Private equity | 10.00% | 10.00% |
| Total | 100.00% | |

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the TMRS fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Changes in the NPL/(A)

| | Increase (Decrease) | | |
|--|----------------------------|--------------------------------|----------------------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability/(Asset) |
| | (A) | (B) | (A) - (B) |
| Changes for the year: | | | |
| Service cost | \$ 15,729 | \$ - | \$ 15,729 |
| Interest | 10,921 | - | 10,921 |
| Difference between expected and actual experience | 1,840 | - | 1,840 |
| Contributions - employer | - | 14,846 | (14,846) |
| Contributions - employee | - | 7,613 | (7,613) |
| Net investment income | - | 19,964 | (19,964) |
| Benefit payments, including refunds of employee contributions | (1,184) | (1,184) | - |
| Administrative expense | - | (92) | 92 |
| Other changes | - | 1 | (1) |
| Net Changes | 27,306 | 41,148 | (13,842) |
| Balance at December 31, 2020 | 154,515 | 151,950 | 2,565 |
| Balance at December 31, 2021 | \$ 181,821 | \$ 193,098 | \$ (11,277) |

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Sensitivity of the NPL/(A) to Changes in the Discount Rate

The following presents the NPL/(A) of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL/(A) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|--------------------------------------|---|----------------------------------|---|
| City's Net Pension Liability/(Asset) | \$ 10,142 | \$ (11,277) | \$ 29,238 |

Pension Plan Fiduciary Net Position

Detailed information about the TMRS fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2022, the City recognized pension expense of \$7,052.

At September 30, 2022, the City reported deferred outflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual economic experience | \$ 1,594 | \$ (107) |
| Changes in actuarial assumptions | 375 | - |
| Net difference between projected and actual investment earnings | - | (10,260) |
| Contributions subsequent to the measurement date | 10,436 | - |
| Total | \$ 12,405 | \$ (10,367) |

\$10,436 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL/(A) for the fiscal year ending September 30, 2023. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

| Fiscal Year Ended September 30 | Pension Expense |
|---|----------------------------|
| 2023 | (1,642) |
| 2024 | \$ (3,344) |
| 2025 | (1,780) |
| 2026 | (1,632) |
| Total | \$ (8,398) |

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

D. Other Postemployment Benefits

TMRS Supplemental Death Benefits

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The SDBF's funding policy assures that adequate resources are available to meet all death benefit payments for the upcoming year. The SDBF is a pay-as-you-go fund, and any excess contributions are available for future SDBF benefits.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2021 is summarized below:

| | |
|--|----------|
| Inactive employees or beneficiaries currently receiving benefits | 1 |
| Active employees | 2 |
| Total | <u>3</u> |

Total OPEB Liability

The City's total OPEB liability of \$9,795 was measured as of December 31, 2021 and was determined by an actuarial valuation as of that date.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|--|---|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Discount rate | 1.84%* |
| Retirees' share of benefit-related costs | Zero |
| Administrative expenses | All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68. |
| Mortality rates-service retirees | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| Mortality rates-disabled retirees | 2019 Municipal Retirees of Texas Mortality Tables with a four-year set-forward for males and a three-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

The actuarial assumptions used in the December 31, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018. Due to the higher mortality rates associated with the global pandemic, the TMRS board adopted changes to the assumptions and methodology used for calculating 2023 rates as determined in the December 31, 2021 actuarial valuation.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|---|-----------------------------|
| Changes for the year: | |
| Service cost | \$ 502 |
| Interest | 190 |
| Difference between expected and actual experience | (335) |
| Changes of assumptions | 267 |
| Benefit payments* | (122) |
| Net Changes | 502 |
| Beginning balance | 9,293 |
| Ending Balance | \$ 9,795 |

* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded

The discount rate decreased from 2.00% as of December 31, 2020 to 1.84% as of December 31, 2021. There were no other changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected the measurement of the total OPEB liability during the measurement period.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

| | 1% Decrease in Discount Rate (0.84%) | Discount Rate (1.84%) | 1% Increase in Discount Rate (2.84%) |
|-----------------------------|---|----------------------------------|---|
| City's Total OPEB Liability | \$ 11,658 | \$ 9,795 | \$ 8,291 |

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2022, the City recognized OPEB expense of \$1,033. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Changes in actuarial assumptions | \$ 1,280 | \$ - |
| Difference between expected and actual experience | - | (454) |
| Contributions subsequent to the measurement date | 122 | - |
| Total | \$ 1,402 | \$ (454) |

\$122 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2023.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ended September 30 | OPEB Expense |
|---|-------------------------|
| 2023 | \$ 343 |
| 2024 | \$ 386 |
| 2025 | 109 |
| 2026 | (12) |
| Total | \$ 826 |

E. Related Organizations and Joint Ventures

Police Protection

Police protection is provided to the City through the City of Spring Valley Village, Texas for a fixed amount due in monthly installments.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

Fire Protection

On December 20, 1978, the City entered into an interlocal cooperation agreement (the “Agreement”) with the cities of Bunker Hill Village, Hedwig Village, Hunters Creek Village, Piney Point Village, and Spring Valley Village, Texas, creating the Village Fire Department (VFD). The Agreement ran for a period of 12 years beginning January 1, 1979 and ended December 31, 1990. Effective January 1, 1991, the Agreement automatically renewed for a period of five years and will continue to renew on each expiration date unless terminated by at least one of the contracting cities. Under the terms of this Agreement, the City is liable for three percent of VFD’s approved budget.

Consolidated financial information extracted from the VFD’s audited financial statements for the year ended December 31, 2021, on which the VFD’s auditors expressed an unqualified opinion, is as follows:

| | VFD Total | | City's Portion (3%) | |
|--|---------------------------|------------------------------|---------------------------|------------------------------|
| | Net Position | Balance Sheet | Net Position | Balance Sheet |
| Total assets and deferred outflows | \$ 9,406,192 | \$ 1,352,352 | \$ 282,186 | \$ 40,571 |
| Total liabilities and deferred inflows | 2,650,595 | 1,028,760 | 79,518 | 30,863 |
| Total Participants' Equity | \$ 6,755,597 | \$ 323,592 | \$ 202,668 | \$ 9,708 |
| | | | | |
| | Change in Net Position | Revenues and Expenditures | Change in Net Position | Revenues and Expenditures |
| Total revenues | \$ 7,256,985 | \$ 7,254,685 | \$ 217,710 | \$ 217,641 |
| Total expenditures/expenses | 7,320,554 | 10,792,826 | 219,617 | 323,785 |
| | | | | |
| Revenues over/(under) expenditures | (63,569) | (3,538,141) | (1,907) | (106,144) |
| Other financing sources | - | 2,300 | - | 69 |
| Beginning participants' equity | 6,819,166 | 3,859,433 | 204,575 | 115,783 |
| Ending Participants' Equity | \$ 6,755,597 | \$ 323,592 | \$ 202,668 | \$ 9,708 |

F. Conduit Debt

To accomplish its purposes, the HVCEFFC, with the approval of the City, is empowered to issue bonds for financing or refinancing of “cultural facilities” as defined by the act under which the HVCEFFC was created for the benefit of separate legal entities. The bonds are secured by a pledge of the monies to be received from the entities pursuant to the agreements. The bonds are payable solely for revenues pledged to their payment and shall not be considered as general obligations of HVCEFFC or the City. This debt, referred to as conduit debt, is not included in the City’s or HVCEFFC’s financial statements.

Two conduit debt instruments of HVCEFFC have been issued. The total amount of conduit debt outstanding at year end was \$11,942,727, which was issued on behalf of St. Francis Episcopal Day School and Providence Classical School.

To accomplish its purposes, the HVHEFC is empowered to issue revenue bonds on behalf of authorized open-enrollment charter schools for the acquisition, construction, repair, or renovation of educational facilities of those schools as defined by the act under which the HVHEFC was created for the benefit of separate legal entities. The bonds are secured by a pledge of the monies to be received from the entities pursuant to the agreements. The bonds are payable solely for revenues pledged to their payment and shall not be considered as general obligations of HVHEFC or the City.

CITY OF HILSHIRE VILLAGE, TEXAS

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2022

This debt, referred to as conduit debt, is not included in the City's or HVHEFC's financial statements.

One conduit debt instrument of HVHEFC has been issued. The total amount of conduit debt outstanding at year end was \$2,803,000, which was issued on behalf of Kipp Austin Public Schools, Inc.

G. Subsequent Events

On December 20, 2022, the City approved a payback agreement with the Texas Comptroller for repayment of \$21,597 in sales and use taxes erroneously paid to the City. The payback agreement includes monthly installments of \$459 for 46 months with a final payment of \$483.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY OF HILSHIRE VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended September 30, 2022

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|---------------------|---|
| Revenues | | | | |
| Property taxes | \$ 1,213,579 | \$ 1,213,579 | \$ 1,228,053 | \$ 14,474 |
| Sales taxes | 54,033 | 54,033 | 67,116 | 13,083 |
| Franchise fees | 55,000 | 55,000 | 60,490 | 5,490 |
| Licenses and permits | 89,800 | 89,800 | 121,419 | 31,619 |
| Investment income | 607 | 607 | 1,375 | 768 |
| Intergovernmental | - | - | 198 | 198 |
| Charges for services | 90,188 | 90,188 | 117,585 | 27,397 |
| Total Revenues | <u>1,503,207</u> | <u>1,503,207</u> | <u>1,596,236</u> | <u>93,029</u> |
| Expenditures | | | | |
| Current: | | | | |
| General government | 510,751 | 500,329 | 412,415 | 87,914 |
| Police protection | 568,792 | 568,792 | 568,642 | 150 |
| Fire protection | 221,528 | 231,950 | 230,950 | 1,000 |
| Public works | | | | |
| Sanitation | 87,535 | 87,535 | 81,592 | 5,943 |
| Street (Non METRO projects) | 70,998 | 70,998 | 57,642 | 13,356 |
| Street (METRO projects) | 153,000 | 153,000 | - | 153,000 |
| Inspections | 40,000 | 40,000 | 33,720 | 6,280 |
| Total Public Works | <u>351,533</u> | <u>351,533</u> | <u>172,954</u> | <u>178,579</u> |
| Total Expenditures | <u>1,652,604</u> | <u>1,652,604</u> | <u>1,384,961</u> | <u>267,643</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>(149,397)</u> | <u>(149,397)</u> | <u>211,275</u> | <u>360,672</u> |
| Other Financing Sources (Uses) | | | | |
| Transfers in | 75,000 | 75,000 | 23,242 | (51,758) |
| Total Other Financing Sources | <u>75,000</u> | <u>75,000</u> | <u>23,242</u> | <u>(51,758)</u> |
| Net Change in Fund Balance | <u>\$ (74,397)</u> | <u>\$ (74,397)</u> | <u>234,517</u> | <u>\$ 308,914</u> |
| Beginning fund balance | | | <u>1,502,983</u> | |
| Ending Fund Balance | | | <u>\$ 1,737,500</u> | |

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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CITY OF HILSHIRE VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
METRO FUND

For the Year Ended September 30, 2022

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|-----------------|------------|---|
| Revenues | | | | |
| Investment income | \$ - | \$ - | \$ 518 | \$ 518 |
| Intergovernmental | 103,000 | 103,000 | 103,000 | - |
| Total Revenues | 103,000 | 103,000 | 103,518 | 518 |
| Expenditures | | | | |
| Current: | | | | |
| Public works | | | | |
| Street (METRO projects) | 103,000 | 103,000 | 9,657 | 93,343 |
| Total Expenditures | 103,000 | 103,000 | 9,657 | 93,343 |
| Excess of Revenue Over Expenditures | - | - | 93,861 | 93,861 |
| Other Financing Sources (Uses) | | | | |
| Transfers out | 75,000 | 75,000 | - | (75,000) |
| Total Other Financing Sources | 75,000 | 75,000 | - | (75,000) |
| Net Change in Fund Balance | \$ 75,000 | \$ 75,000 | \$ 93,861 | \$ 18,861 |
| Beginning fund balance | | | 317,565 | |
| Ending Fund Balance | | | \$ 411,426 | |

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

CITY OF HILSHIRE VILLAGE, TEXAS
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2022

| | Measurement Year* | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2014 | 2015 | 2016 | 2017 |
| Total Pension Liability | | | | |
| Service cost | \$ 978 | \$ 6,151 | \$ 8,675 | \$ 9,597 |
| Interest (on the total pension liability) | 3,077 | 3,542 | 4,416 | 5,471 |
| Changes of benefit terms | 43,472 | - | - | 2,641 |
| Difference between expected and actual experience | - | 961 | 124 | (215) |
| Change of assumptions | - | 3,004 | - | - |
| Benefit payments, including refunds of employee contributions | - | - | (197) | (1,184) |
| Net Change in Total Pension Liability | <u>47,527</u> | <u>13,658</u> | <u>13,018</u> | <u>16,310</u> |
| Beginning total pension liability | <u>-</u> | <u>47,527</u> | <u>61,185</u> | <u>74,203</u> |
| Ending Total Pension Liability | <u><u>\$ 47,527</u></u> | <u><u>\$ 61,185</u></u> | <u><u>\$ 74,203</u></u> | <u><u>\$ 90,513</u></u> |
| Plan Fiduciary Net Position | | | | |
| Contributions - employer | \$ 1,638 | \$ 10,630 | \$ 13,721 | \$ 16,193 |
| Contributions - employee | 628 | 3,948 | 5,395 | 6,051 |
| Net investment income | - | 3 | 1,144 | 5,138 |
| Benefit payments, including refunds of employee contributions | - | - | (197) | (1,184) |
| Administrative expense | - | (1) | (13) | (27) |
| Other | - | - | (1) | (1) |
| Net Change in Plan Fiduciary Net Position | <u>2,266</u> | <u>14,580</u> | <u>20,049</u> | <u>26,171</u> |
| Beginning plan fiduciary net position | <u>-</u> | <u>2,266</u> | <u>16,846</u> | <u>36,895</u> |
| Ending Plan Fiduciary Net Position | <u><u>\$ 2,266</u></u> | <u><u>\$ 16,846</u></u> | <u><u>\$ 36,895</u></u> | <u><u>\$ 63,066</u></u> |
| Net Pension Liability/(Asset) | <u><u>\$ 45,261</u></u> | <u><u>\$ 44,339</u></u> | <u><u>\$ 37,308</u></u> | <u><u>\$ 27,447</u></u> |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability/(Asset) | 4.77% | 27.53% | 49.72% | 69.68% |
| Covered Payroll | \$ 12,551 | \$ 78,961 | \$ 107,899 | \$ 121,027 |
| Net Pension Liability as a Percentage of Covered Payroll | 360.62% | 56.15% | 34.58% | 22.68% |

*Only eight years of information is currently available. The City will build this schedule over the next two-year period.

| Measurement Year* | | | | |
|-------------------|----------------|-------------------|-------------------|--------------------|
| | 2018 | 2019 | 2020 | 2021 |
| \$ | 13,355 | \$ 14,352 | \$ 14,995 | \$ 15,729 |
| | 6,520 | 7,864 | 9,425 | 10,921 |
| | - | - | - | - |
| | 723 | 785 | (255) | 1,840 |
| | - | 2,169 | - | - |
| | (1,184) | (1,184) | (3,563) | (1,184) |
| | 19,414 | 23,986 | 20,602 | 27,306 |
| | 90,513 | 109,927 | 133,913 | 154,515 |
| \$ | <u>109,927</u> | <u>\$ 133,913</u> | <u>\$ 154,515</u> | <u>\$ 181,821</u> |
| \$ | 20,373 | \$ 17,554 | \$ 15,871 | \$ 14,846 |
| | 6,206 | 6,757 | 7,230 | 7,613 |
| | (1,902) | 13,490 | 9,416 | 19,964 |
| | (1,184) | (1,184) | (3,563) | (1,184) |
| | (37) | (76) | (60) | (92) |
| | (2) | (2) | (3) | 1 |
| | 23,454 | 36,539 | 28,891 | 41,148 |
| | 63,066 | 86,520 | 123,059 | 151,950 |
| \$ | <u>86,520</u> | <u>\$ 123,059</u> | <u>\$ 151,950</u> | <u>\$ 193,098</u> |
| \$ | <u>23,407</u> | <u>\$ 10,854</u> | <u>\$ 2,565</u> | <u>\$ (11,277)</u> |
| | 78.71% | 91.89% | 98.34% | 106.20% |
| \$ | 124,114 | \$ 135,137 | \$ 144,605 | \$ 152,264 |
| | 18.86% | 8.03% | 1.77% | -7.41% |

CITY OF HILSHIRE VILLAGE, TEXAS
SCHEDULE OF CONTRIBUTIONS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2022

| | Fiscal Year* | | | |
|--|--------------|-------------|-------------|-------------|
| | 2015 | 2016 | 2017 | 2018 |
| Actuarially determined contribution | \$ 9,754 | \$ 12,666 | \$ 15,584 | \$ 18,677 |
| Contributions in relation to the actuarially determined contribution | 9,754 | 12,666 | 15,584 | 18,677 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 72,248 | \$ 99,079 | \$ 117,679 | \$ 122,619 |
| Contributions as a percentage of covered payroll | 13.50% | 12.78% | 13.24% | 15.23% |

*Only eight years of information is currently available. The City will build this schedule over the next two-year period.

Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

2. Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 5 years |
| Asset valuation method | 10 year smoothed market; 12% soft corridor |
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Investment rate of return | 6.75% |
| Retirement age | Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2020 valuation pursuant to an experience study of the period December 31, 2014 - December 31, 2018. |
| Mortality | Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP. |

3. Other Information:

There were no benefit changes during the year.

| Fiscal Year* | | | |
|--------------|-------------|-------------|-------------|
| 2019 | 2020 | 2021 | 2022 |
| \$ 18,130 | \$ 16,400 | \$ 15,066 | \$ 14,342 |
| 18,130 | 16,400 | 15,066 | 14,342 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| \$ 132,270 | \$ 142,815 | \$ 149,780 | \$ 175,598 |
| 13.71% | 11.48% | 10.06% | 8.17% |

CITY OF HILSHIRE VILLAGE, TEXAS
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
TEXAS MUNICIPAL RETIREMENT SYSTEM
For the Year Ended September 30, 2022

| | Measurement Year* | | | |
|--|-------------------|-----------------|-----------------|-----------------|
| | 2017 | 2018 | 2019 | 2020 |
| Total OPEB Liability | | | | |
| Service cost | \$ 254 | \$ 298 | \$ 270 | \$ 390 |
| Interest (on the total OPEB liability) | 211 | 216 | 235 | 219 |
| Difference between expected and actual experience | - | (255) | (148) | (183) |
| Change of assumptions | 464 | (398) | 1,290 | 1,114 |
| Benefit payments** | - | (37) | (54) | (58) |
| Net Change in Total OPEB Liability | <u>929</u> | <u>(176)</u> | <u>1,593</u> | <u>1,482</u> |
| Beginning total OPEB liability | <u>5,465</u> | <u>6,394</u> | <u>6,218</u> | <u>7,811</u> |
| Ending Total OPEB Liability | <u>\$ 6,394</u> | <u>\$ 6,218</u> | <u>\$ 7,811</u> | <u>\$ 9,293</u> |
| Covered Payroll | \$ 121,027 | \$ 124,114 | \$ 135,137 | \$ 144,605 |
| Total OPEB Liability as a Percentage of Covered Payroll | 5.28% | 5.01% | 5.78% | 6.43% |

* Only five years' of information is currently available. The City will build this schedule over the next five-year period.

** Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

Notes to Required Supplementary Information:

1. Valuation Date:

Actuarially determined rates are calculated as of December 31 and become effective in January, 13 months later.

2. Methods and Assumptions Used to Determine Contribution Rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age normal |
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Discount rate | 1.84% |
| Administrative expenses | All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68. |
| Mortality - service retirees | 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| Mortality - disabled retirees | 2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.50% and 3.00% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

3. Other Information:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits.

The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

The actuarial assumptions used in the December 21, 2021 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

There were no benefit changes during the year.

**Measurement
Year***
2021

| | |
|-----------|--------------|
| \$ | 502 |
| | 190 |
| | (335) |
| | 267 |
| | (122) |
| | <u>502</u> |
| | <u>9,293</u> |
| <u>\$</u> | <u>9,795</u> |
| \$ | 152,264 |
| | 6.43% |

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SCHEDULE

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CITY OF HILSHIRE VILLAGE, TEXAS
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
DEBT SERVICE FUND

For the Year Ended September 30, 2022

| | Original Budget | Final Budget | Actual | Variance with Final Budget Positive (Negative) |
|--|--------------------|-----------------|-----------------|---|
| Revenues | | | | |
| Property taxes | \$ 358,458 | \$ 358,458 | \$ 362,601 | \$ 4,143 |
| Total Revenues | 358,458 | 358,458 | 362,601 | 4,143 |
| Expenditures | | | | |
| Principal | 330,000 | 330,000 | 330,000 | - |
| Interest and fiscal charges | 28,454 | 28,454 | 28,175 | 279 |
| Total Expenditures | 358,454 | 358,454 | 358,175 | 279 |
| Excess of Revenue Over Expenditures | 4 | 4 | 4,426 | 4,422 |
| Other Financing Sources (Uses) | | | | |
| Transfers (out) | - | - | (23,242) | (23,242) |
| Total Other Financing (Uses) | - | - | (23,242) | (23,242) |
| Net Change in Fund Balance | \$ 4 | \$ 4 | (18,816) | \$ (18,820) |
| Beginning fund balance | | | 20,040 | |
| | | | \$ 1,224 | |

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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